

ROUTING AND TRANSMITTAL SLIP		Date
		4/26/85
TO: (Name, office symbol, room number, building, Agency/Post)		Initials Date
1. EO/DDA		EW 26/4
2.		
3.		
4.		
5. DDA Registry (file)		
Action	File	Note and Return
Approval	For Clearance	Per Conversation
As Requested	For Correction	Prepare Reply
Circulate XXXX	For Your Information	See Me
Comment	Investigate	Signature
Coordination	Justify	

REMARKS

cc: D/PERSONNEL

done 4/26/85
zc

DO NOT use this form as a RECORD of approvals, concurrences, disposals, clearances, and similar actions

FROM: (Name, org. symbol, Agency/Post)	Room No.—Bldg.
	Phone No.

5041-102

OPTIONAL FORM 41 (Rev. 7-76)
Prescribed by GSA
FPMR (41 CFR) 101-11.206

EXECUTIVE SECRETARIAT
ROUTING SLIP

TO:		ACTION	INFO	DATE	INITIAL
1	DCI				
2	DDCI				
3	EXDIR				
4	D/ICS				
5	DDI				
6	DDA		X		
7	DDO				
8	DDS&T				
9	Chm/NIC				
10	GC				
11	IG				
12	Compt		X		
13	D/Pers				
14	D/OLL				
15	D/PAO				
16	SA/IA				
17	AO/DCI				
18	C/IPD/OIS				
19	NIO/ECON		X		
20					
21					
22					
SUSPENSE		Date _____			

Remarks

Executive Secretary

24 Apr 85

Date

3637 (10-81)

THE WHITE HOUSE
WASHINGTON

Executive Registry

85-

1510/11

CABINET AFFAIRS STAFFING MEMORANDUM

Date: 4/22/85

Number: -----

Due By: -----

DD/A Registry

8-1496

Subject: Cabinet Council on Economic Affairs Minutes:

March 29, 1985 and April 9, 1985

ALL CABINET MEMBERS	Action	FYI
Vice President	<input type="checkbox"/>	<input checked="" type="checkbox"/>
State	<input type="checkbox"/>	<input type="checkbox"/>
Treasury	<input type="checkbox"/>	<input type="checkbox"/>
Defense	<input type="checkbox"/>	<input type="checkbox"/>
Justice	<input type="checkbox"/>	<input type="checkbox"/>
Interior	<input type="checkbox"/>	<input type="checkbox"/>
Agriculture	<input type="checkbox"/>	<input type="checkbox"/>
Commerce	<input type="checkbox"/>	<input type="checkbox"/>
Labor	<input type="checkbox"/>	<input type="checkbox"/>
HHS	<input type="checkbox"/>	<input type="checkbox"/>
HUD	<input type="checkbox"/>	<input type="checkbox"/>
Transportation	<input type="checkbox"/>	<input type="checkbox"/>
Energy	<input type="checkbox"/>	<input type="checkbox"/>
Education	<input type="checkbox"/>	<input type="checkbox"/>
OMB	<input type="checkbox"/>	<input type="checkbox"/>
CIA	<input type="checkbox"/>	<input type="checkbox"/>
UN	<input type="checkbox"/>	<input type="checkbox"/>
USTR	<input type="checkbox"/>	<input type="checkbox"/>
Chief of Staff	<input type="checkbox"/>	<input type="checkbox"/>
GSA	<input type="checkbox"/>	<input type="checkbox"/>
EPA	<input type="checkbox"/>	<input type="checkbox"/>
NASA	<input type="checkbox"/>	<input type="checkbox"/>
OPM	<input type="checkbox"/>	<input type="checkbox"/>
VA	<input type="checkbox"/>	<input type="checkbox"/>
SBA	<input type="checkbox"/>	<input type="checkbox"/>

	Action	FYI
CEA	<input type="checkbox"/>	<input checked="" type="checkbox"/>
CEQ	<input type="checkbox"/>	<input type="checkbox"/>
OSTP	<input type="checkbox"/>	<input type="checkbox"/>
Deaver	<input type="checkbox"/>	<input checked="" type="checkbox"/>
McFarlane	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Svahn	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Chew (For WH Staffing)	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Executive Secretary for:		
CCCT	<input type="checkbox"/>	<input checked="" type="checkbox"/>
CCEA	<input type="checkbox"/>	<input checked="" type="checkbox"/>
CCFA	<input type="checkbox"/>	<input checked="" type="checkbox"/>
CGHR	<input type="checkbox"/>	<input checked="" type="checkbox"/>
CCLP	<input type="checkbox"/>	<input checked="" type="checkbox"/>
CCMA	<input type="checkbox"/>	<input checked="" type="checkbox"/>
CCNRE	<input type="checkbox"/>	<input checked="" type="checkbox"/>

REMARKS:

Attached for your information are the minutes of the following
Cabinet Council on Economic Affairs meetings:

March 29, 1985

April 9, 1985

RETURN TO:

☐ Alfred H. Kingon
Cabinet Secretary
456-2823
(Ground Floor, West Wing)

☐ Don Clarey
☒ Tom Gibson
☐ Larry Herbolsheimer

Associate Director
Office of Cabinet Affairs
456-2800 (Room 129, OE0B)

MINUTES
CABINET COUNCIL ON ECONOMIC AFFAIRS

March 29, 1985
9:00 a.m.
Roosevelt Room

Attendees: Messrs. Baker, Stockman, Darman, Ford, Naylor, Smith, Niskanen, Porter, Kingon, Baroody, Cogan, Egger, Fitzwater, Gibson, Knapp, Korb, Ortner, Platt, Spears, and Tharp, Ms. McLaughlin and Ms. McCaffrey.

1. Report of the Working Group on Employment Policy

David Stockman reported on activity in Congress to extend and modify the Federal Supplemental Compensation (FSC) program, which expires March 31, and the Extended Benefits (EB) program. He explained that the Administration had approved in September 1983 an 18 month extension of the FSC program until March 1985, costing \$3.6 billion.

The House Ways and Means Subcommittee on Public Assistance and Unemployment Compensation yesterday marked up a three-month extension of the FSC program, providing 4 to 8 weeks of additional benefits, with an eventual phase out of eligibility. This would affect 300,000 to 350,000 workers whose benefits otherwise would expire this weekend. The subcommittee also marked up a bill which alternatively would provide up to 30 additional weeks of benefits. Full committee consideration is scheduled for Tuesday, April 2, with floor action possible next week as well.

In the Senate, legislation extending FSC benefits to current recipients for six months has been introduced. Senator Packwood has tentatively scheduled an April 2 markup of an alternate bill allowing current recipients to continue receiving benefits until they exhaust their number of eligible weeks. Mr. Stockman noted that this simple "run out" legislation would cost an estimated \$99 million. He said that pressure for enacting more costly proposals is likely to continue.

The Council agreed that the Administration should continue to oppose extending the FSC program or modifying the extended benefit program.

2. Report of the Working Group on Pension Policy

William Niskanen presented a paper, prepared by the Working Group on Pension Policy, on "Minimum Funding Waivers." Under the provisions of ERISA, the IRS can grant pension plan sponsors experiencing "economic hardship" up to five waivers of their minimum funding responsibilities during any fifteen year period.

Minutes
Cabinet Council on Economic Affairs
March 29, 1985
Page two

Since 1974, the statutory authority for granting waivers has been delegated by the Secretary of the Treasury to the Internal Revenue Service.

Mr. Niskanen explained that the intent of minimum funding waivers is to provide financial flexibility to employers sponsoring pension plans. Waivers effectively are loans from pension beneficiaries to plan sponsors.

Mr. Niskanen emphasized that there is no disagreement about the IRS's statutory authority to grant funding waivers to employers. But, he said, a majority of the Working Group believes that attention also should be given to the threat that waivers pose to pension plan participants and the Pension Benefit Guaranty Corporation (PBGC) insurance fund which is currently in deficit. He also noted that other provisions of ERISA require that pension plans be operated for the "exclusive benefit of beneficiaries."

The Working Group requested the Council's consideration of two issues: (1) whether to approve a provision of the Administration's single employer pension bill which would grant the PBGC the option of imposing a lien on employers who are granted funding waivers and (2) whether to request that the Working Group explore administrative and legislative options for administratively or legislatively reforming the minimum funding waiver process.

Mr. Niskanen explained that the Administration has included the lien provision in its bill to increase PBGC premiums the last two years. The bill has failed to pass the Congress for reasons unrelated to the lien provision. He said the provision is again part of the Administration's FY 1986 bill pending the Cabinet Council's approval. Mr. Tharp, executive director of the PBGC, noted that the lien would not be automatic, but would be applied at the discretion of the PBGC, allowing flexibility for alternate ways that an employer could show its long-term financial viability.

Mr. Niskanen said that the lien provision would not betray the spirit of granting waivers which recognizes that firms can experience temporary financial problems in funding pension plans, but that it would provide some protection to the PBGC insurance fund. He said the issue of reforming fundamentally the process of granting waivers is, on the other hand, an issue than should be considered only after thorough review by the Working Group.

Minutes
Cabinet Council on Economic Affairs
March 29, 1985
Page three

The Council discussion focused on: the ongoing practice of the IRS to consult the PBGC on waiver requests involving more than \$50,000; the number of firms receiving waivers that have subsequently terminated their pension plans, shifting liabilities to the PGBC; the potential savings to taxpayers resulting from granting funding waivers to struggling firms; the number and size of pending waiver requests; the disincentives for firms receiving waivers to seek alternate private sector loans and the potential harm to a firm's credit rating that could result from a PBGC lien on its assets; alternate options for reducing the risks to the PBGC insurance fund, including greater attention by the IRS to a firm's long term financial viability; and the practices of other nations which for the most part do not permit pension funding waivers.

The Cabinet Council agreed that the Working Group should undertake a long-term study of the minimum funding waiver process, but postponed approving the lien provision to provide time for the IRS to submit its comments. A final decision memorandum will be circulated by the Executive Secretary.

The Council also expressed its appreciation for the contributions of Mr. Niskanen and Mr. Tharp who will be leaving government service soon.

MINUTES
CABINET COUNCIL ON ECONOMIC AFFAIRS

April 9, 1985
9:00 a.m.
Roosevelt Room

Attendees: Messrs. Baker, Ford, Darman, Porter, Wright, Jones, Lighthizer, Sprinkel, Johnson, Eastburn, Breedon, Herbolzheimer, Knapp, Shepherd, Thompson, and Li, and Ms. Eickhoff.

1. Deposit Insurance Study

Mr. Eastburn presented a brief review of the recommendations of the deposit insurance study prepared by the Working Group on Financial Institutions Reform. The Cabinet Council last reviewed the study on January 10 and January 15. At that time, the Chairman Pro Tempore indicated that Council members would have an opportunity to digest the study and recommendations and that it would be considered once more before final approval.

The study makes five recommendations for reforming the Federal deposit insurance system. They include increasing capital requirements, phasing in risk-related insurance premiums, increasing the size of deposit insurance funds, instituting uniform accounting standards, and improving the examination, supervision, and enforcement functions of the regulatory agencies.

The Cabinet Council discussed the need to implement carefully the phasing in of risk-related insurance premiums in order to avoid affecting confidence in individual institutions. The Council noted the study's recommendation of using objective criteria and a formula from public data to determine an institution's premium.

The Cabinet Council approved recommending to the President that he adopt the five recommendations. The Chairman Pro Tempore asked the Executive Secretary to prepare a memorandum to the President with the Cabinet Council's recommendations.

2. Disinflation and its Economic Implications

Mr. Sprinkel and Mr. Johnson presented papers contrasting differing views on disinflation and its monetary policy implications. Mr. Sprinkel argued that although there has been deflation in commodity prices, the general price level has

Minutes
Cabinet Council on Economic Affairs
April 9, 1985
Page two

experienced disinflation, an increase in the price level but at a slower rate than before. Commodity prices tend to be more volatile than the general price level, and given the disinflation in the general price level, one could expect declines in commodity prices. Moreover, much of the commodity price decline can be attributed to the appreciation of the U.S. dollar.

He argued that the Federal Reserve should consider money growth, rather than changes in commodity prices, in determining monetary policy. Looking at money growth, there is currently no evidence that money growth on a year-over-year basis is "too tight." He concluded that we should not risk accelerating money growth because of weak commodity prices.

While not necessarily agreeing with their views, Mr. Johnson presented the arguments of some observers that commodity deflation is a more significant problem than the Federal Reserve has acknowledged. Certain sectors have been hurt particularly hard by the disinflationary process, including the agriculture, energy, and many goods-producing industries.

Some observers argue that monetary policy has been "too tight." This tightness has been reflected in an appreciation in the value of the dollar and deflation in the price of commodities. These observers argue that the Federal Reserve should consider a number of factors such as commodity prices and exchange rates as well as money growth in determining monetary policy.

The Council discussion revolved around what criteria the Federal Reserve should use in determining monetary policy. It examined the implications of considering money growth exclusively or a combination of money growth and other factors, such as commodity prices, exchange rates, and interest rates.

The Council discussed the degree to which one could tolerate high money growth over the short run if it does not imply high money growth over the long run. Council members noted that high money growth over the short run runs the risks of first, having the market adjust upward its inflationary expectations, and second, the Federal Reserve letting high money growth run for a longer period than desired and then tightening precipitously.

The Council also discussed the degree of control that the Federal Reserve has over money growth.